

# **Conceptualising entrepreneurial capital for a study of performance in small professional service firms**

## **Authors**

Lindsay Stringfellow

Lecturer, University of Exeter Business School

Dr Eleanor Shaw

Reader, StrathclydeBusiness School

## **Abstract**

### **Purpose of this paper**

The purpose of this paper is to develop a robust theoretical framework for exploring the longitudinal impact of social capital on the performance of small business service firms.

### **Design/methodology/approach**

This conceptual paper builds upon theories of capital, particularly entrepreneurial capital, to develop a theoretically robust framework within which to consider the longitudinal impact of social capital on small business service firms.

### **Findings**

Reviewing the current literature on entrepreneurial capital demonstrates the difficulty in isolating capital in its various forms due to the convertibility and overlapping nature of different types of capital. Also problematic is the issue of the impact of time and the effect which changing amounts and types of capital can have on firm performance. The conceptual model proposed addresses these concerns by exploring social capital in a sector where financial capital presents less of a barrier to entry and where owners' human capital, particularly their educational achievement, is broadly similar. To capture process-based data, three key stages in the entrepreneurship process are explored: nascent, start-up and established.

### **Practical implication**

Understanding the changing structure and relational aspects of social capital over time and its impact on performance will assist small business owners in utilising their relationships more effectively. Although this study focuses on small professional service firms it may also be applicable to other sectors, or be used in replicated studies with other professions.

### **What is original/value of paper**

The conceptual framework proposed recognises the overlapping and convertible nature of different forms of capital. Further it recognises the fluctuating nature of entrepreneurial capital over time and the different outcomes which can emerge from social capital.

**Keywords:** entrepreneurial capital, social capital, human capital, small professional services

## **Conceptualising entrepreneurial capital for a study of performance in small professional service firms**

### **Introduction**

It is now recognised that business ownership is predicated on the entrepreneur's access to both financial and non-financial resources (Morris, 1998; Erikson, 2002; Firkin, 2003). Responding to this, entrepreneurship scholars have drawn from capital theory (Bourdieu, 1986) to explore the impact which the entrepreneur's access to entrepreneurial capital, that is their economic, human, social, cultural and symbolic capital, has on their ability to initiate and grow successful ventures (Boden and Nucci, 2000; Carter *et al.*, 2003; Davidsson and Honig, 2003; Firkin, 2003; Shaw, *et al.*, 2005; De Carolis and Saporito, 2006; Casson and Giusta, 2007; Cope *et al.*, 2007; Haber and Reichel, 2007). To date, research in this area has concentrated on understanding the impact of isolated forms of capital on entrepreneurship. In particular economic (Carter *et al.*, 2003), human and social capital (Davidsson and Honig 2003; Renzulli *et al.* 2000) have been investigated. However, one challenge which arises when applying capital theory to studies of entrepreneurship is how to operationalise, explore and account for what Bourdieu (1986) identifies as the overlapping, convertible nature of different forms of capital. Bourdieu's (1986) perspective on capital suggests that it may be difficult to isolate and separate different types of capital. Similarly, Firkin (2003:5) reasons that the interplay between different varieties of capital is complicated by their convertibility; that is 'how each form of capital can be converted from and into other forms of capital'. A further challenge is that studies of entrepreneurial capital have tended to collect data at a fixed point in

time. As the amount and variety of capital available to an entrepreneur is constantly changing and evolving, studies restricted to particular points in time fail to capture both the fluctuating nature of entrepreneurial capital and also the impact of entrepreneurial capital over time.

Particular to this paper's interest in small professional service firms, the concept of entrepreneurial capital (Firkin, 2003) is particularly useful in explaining variances in the performance of such firms for which specialised knowledge, reputation and client relationships are key success factors (Silversides 2001; Shaw 2006; Wood 1990). Professional business services are one of the fastest growing sectors internationally (Ram and Carter 2003), and as entry barriers and initial investment are relatively low, financial capital does not pose the same problem as it might for other types of small firm (Shaw *et al.* 2006). The prime factors found to determine the growth and development of small professional service firms include their relationships and reputation, both within and out-with the profession. Previous research has identified the access and use of networks as essential to the success of small professional service firms (Ram and Carter 2003; Shaw *et al.* 2006; Silversides 2001).

Building on such research this paper identifies theories of capital, particularly entrepreneurial capital, as appropriate for exploring the impact which relationships, networks and reputation have on the creation and subsequent development of small professional service firms. In particular the paper develops a conceptual framework appropriate for investigating both the interplay between different forms of entrepreneurial capital and how different configurations of social capital relate to the performance of small business service firms over time.

The paper is presented in five parts. It opens by discussing the characteristics of small professional service firms and the particular relevance of entrepreneurial capital to the performance of such firms before introducing the concept of social capital and considering the outcomes, benefits and risks of social capital. The paper then discusses the impact of time and proposes a three phase approach for examining changes in the small firm. The conceptual framework is then presented with some discussion of how it might be operationalised in an empirical study.

### **Entrepreneurial Capital and Small Professional Service Firms**

If the entrepreneurial process is viewed “... *as comprising the pursuit of opportunity and the mobilization of resources to create, deliver and capture value through business activity*” (Garnsey, Stam and Heffernan 2006: 5), it makes sense to study the entrepreneurial process from a resource-based perspective. The role of the entrepreneur is then viewed as determining, accessing and employing the appropriate resources (Firkin 2001). Previous studies have often taken financial capital as the key variable here, but Morris (1998) points out that critical resources are typically non-financial. Therefore, to understand the role of resources in the entrepreneurial process, different forms of capitals, namely cultural (which includes human capital), social, financial and symbolic, must all be considered. This notion is the premise for an increasing number of studies which utilise entrepreneurial capital as a mechanism for conceptualising the entrepreneurial process (Firkin 2001; Kugler, Rosenbusch and Mader 2007).

Employing notions of capital in the study of entrepreneurship is certainly not a new approach, but extant research has tended to focus on one or two of the forms of capital (Cope *et al.* 2007; Davidsson and Honig 2003; DeCarolis and Saporito 2006). This paper instead supports Bourdieu's perspective (1983: 183) that it is "*impossible to account for the structure and functioning of the social world unless one reintroduces capital in all its forms*". At any single point in time, it is the structure and distribution of the various capital forms that will determine an entrepreneur's chance of success (Bourdieu 1983). The advantages of viewing entrepreneurial capital in the broadest possible sense are clear, but applying the notion raises numerous theoretical and empirical problems. The different forms of capital are interchangeable and in constant flux and this, coupled with the problems of defining and categorising each form of capital can make the entrepreneurial capital framework difficult to apply in a realistic and meaningful way.

Some commentators may question whether the small professional service firm and its owner managers can actually be classified as 'entrepreneurial'. Langlois (2005: 29) comments that it is "*certainly entrepreneurial to seize profit opportunities that fit in with a highly articulated structure of existing knowledge. But much of the sense of the term "entrepreneurial" carries with it the implication of novel recombination that is somehow more radical, or at least less constrained*". The implication is, therefore, that firms will only be entrepreneurial if they can do this through market mechanisms, for example some firms will be exploring a new niche in their sector. This paper adopts a broader view of an entrepreneurial firm- one in which firms actively seek new entrepreneurial opportunities in order to take advantage of unused resources, including knowledge resources (Cohen and Levinthal 1990; Penrose 1959;

MacPherson and Holt, 2007; Thorpe *et al.*, 2005). The founders of small professional service firms still need to mobilise their ‘entrepreneurial’ resources (human, financial, social and symbolic) to exploit an identified market opportunity, which in any sector entails some degree of risk, and the ability to assemble and convert these capitals effectively. From this perspective, using the term ‘entrepreneurial’ for professional services is quite appropriate given the knowledge-intensive, personally influenced, problem-solving nature of most professional work. The framework presented in this paper will therefore use the term ‘entrepreneurial capital’ to denote the various capitals possessed by the founders of small professional service firms (Firkin 2001, 2003). However, it should be acknowledged that there are numerous uses and applications of the term in the entrepreneurship field, for example, parental background has been used as a proxy for the concept (Henley 2005). ‘Entrepreneurial capital’ has also been used to define entrepreneurial competence and commitment-essentially human capital (Erikson 2002) and also to denote both human and social capital (Zorn 2004). Often the term is simply used to denote capital that is acquired and used in order to start a business (Fletschner and Carter 2008; Ghosh and Ghosh 2006). It should also be noted that cultural and human capital are often used interchangeably to refer to the educational achievements and experiences of entrepreneurs. While Bourdieu (1997) includes human capital - experiences and education – within his definition of cultural capital,<sup>i</sup> many entrepreneurship scholars have built on the work of Becker (1964)<sup>ii</sup> to consider the impact of the entrepreneur’s education, skills and previous employment experiences on firm survival and success. Despite subtle differences in definitions of human and cultural capital, these terms are often used interchangeably when discussing the impact of education and experience on the entrepreneurship process.

When applying the concept of entrepreneurial capital to professional service firms, there are a number of industry-specific factors which need to be considered. Building on Becker's (1964) definition of human capital, the education, skills and previous employment experiences of entrepreneurs has been found to impact on the successful creation of small firms (Bates 1995; Cooper *et al.* 1994; Reynolds *et al.* 2002; Robinson and Sexton 1994). In their study, Davidsson and Honig (2003) found the relationship between education and entrepreneurship to be stronger than skills and previous employment. On balance however, their study found social capital to have greater impact on new venture creation than indicators of human capital.

Particular to small professional service firms it might be expected that owners will possess high levels of human capital, in terms of both education and the acquisition of skills over time (Bates 1995). Wood (1990) drew attention to this by arguing that it is critical for the owners of such firms to convince their clients of the quality and value of their knowledge and experience. Drawing on Bourdieu's (1990) discussion of symbolic capital, this suggests that high levels of human capital are critical to the reputation and the success of professional service firms through enhancing the actor's 'credit of renown'. Specific to independent liberal professions such as accountancy, the requirement for practitioners to acquire certifiable and credentialed professional knowledge, legitimated through a formal knowledge system suggests that the owners of such firms will possess high levels of human capital (Hitt *et al.* 2001; MacDonald 1995).



Human or cultural capital is indicated through such professional qualifications, which require to be re-legitimised periodically through continuing professional development (Hanlon 1997). The professional legitimacy offered from professional associations also increases the symbolic capital of business owners, helping them to represent themselves as “*impartial purveyors of truth*” (Carter and Crowther 2000: 24). Collectively this suggests that as a sector, small professional service firms display high levels of human capital. Building on this, it can be argued that while some variance in levels of human capital possessed by the owners of such firms may arise from different levels of expertise and experience, differences in the performance of such firms may depend more on the owner’s possession of and access to other forms of capital.

In the small firm literature much research attention has focused on how access to financial capital affects business ownership. The fact that women, for example, may have different experiences and success rates in business ownership has often been linked to financial issues, such as lower levels of capitalisation (Brush *et al.* 2001; Carter and Rosa 1998; Rosa *et al.* 1994; Rosa *et al.* 1996). However, the relevance of examining finance in isolation from the other capitals is questionable. A bank is unlikely to overtly discriminate against women attempting to acquire finance, but the nature of the relationship between the bank and the borrower, in terms of trust and reputation is likely to be key. These nuances are far less tangible and harder to uncover, particularly in surveys which have tended to dominate this field. With regard to financial capital, the service sector as a whole tends to have relatively low entry barriers and low set-up costs (Chell and Baines 1998; 2000; Shaw 2006). The value in a professional service firms resides in specialised information and knowledge, for

which there is increasing demand and high returns (Hanlon 1997; Robertson *et al.* 2003; Silversides 2001). As with human capital, the symbolic power of financial capital is important, in terms of how the client perceives the reputation, standing, and the value that they get from their services (Lowendahl 2005).

Bearing these factors in mind, this paper proposes that examining the performance and outcomes of professional service firms will be a useful way to isolate and examine the impact of social and symbolic capital, due to the similarity or relative inconsequence of financial and human capital. The salience of networks and networking to small firms is well versed in entrepreneurship research (Aldrich and Zimmer 1986; Birley 1985; Hoang and Antoncic 2003; Gilmore and Carson 1999; Johannisson 1986; O'Donnell *et al.* 2001; Shaw 2006), and need not be recounted in detail here. In common with network studies, Burt (1992) suggests that social capital creates advantage in '*... the way in which social structure renders competition imperfect by creating entrepreneurial opportunities for certain players and not for others*' (p.157). Research has confirmed the importance of social capital for new venture creation (Davidsson and Honig 2003), most likely due to the access social capital can grant to vital resources, particularly finance (Aldrich 1986; Carter *et al.* 2003). Other outcomes, such as information and influence may also contribute to the development and success of small firms, for instance through innovation and greater organisational adaptability (Nahapiet and Ghoshal 1998; Solymossy 2000; Tsai and Ghoshal 1998; Uzzi 1996, 1997; Walker, Kogut and Shan 1997). Externally, social capital can facilitate knowledge transfer (Ireland *et al.* 2002), may help in securing marketing skills (Carter *et al.* 2003; Uzzi 1999) and can improve survival rates (Pennings *et al.* 1998).

Symbolic capital refers to the fact that the amount of capital possessed by an individual is affected by the value placed on such capital by others. Bourdieu (1986) regards symbolic capital as the form which different types of capital take once they are perceived and recognised by others as legitimate and he describes the concept as “*more or less synonymous with: standing, good name, honour, fame, prestige and reputation*” (Bourdieu 1993: 37). The importance of word of mouth for gaining clients in the service industry is widely acknowledged and building a good name and reputation in the professional services is of paramount importance given the complexity and potentially sensitive nature of the work (Hitt *et al.* 2001; Lowendahl 2005; Robertson *et al.* 2003). The interplay and overlapping, particularly symbolic nature of various capitals has been recognised (Bourdieu 1986) but the boundaries between different manifestations of capital in the small firm are unclear. The value of a business owner’s social capital will increase as they gain in reputation – a critical dimension of symbolic capital - which may become more important over time than educational attainment alone.

### **Social capital**

Entrepreneurship research is increasingly recognising the critical importance of social capital (Anderson and Jack, 2002; Anderson and Miller, 2002; Neergaard *et al.* 2005), yet social capital is not a new concept. Bourdieu (1985) was one of the first to systematically approach and define social capital as ‘*the aggregate of actual or potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance or recognition*’ (1985: 248). Multidisciplinary interest in social capital has generated a plethora of competing

definitions and classifications. This is evidenced by Putnam's (2000) review which established that between 1996 and 1999, more than one thousand articles on the topic of social capital were published. Most definitions regard networks and relationships as core to the concept of social capital (Bourdieu 1985; Lin 1999; Casson and Della Giusta, 2007). Debate centers however on three key issues: whether an internal or external perspective is adopted; the nature of the outcomes of social capital; and the focus of analysis in social capital research. Where an internal perspective is adopted researchers emphasize the structure of relations among actors within a collective, for example a community. In contrast, an external perspective considers the relationships a central actor maintains with others. Analyses that have regarded social capital as a public or collective good (c.f.: Ostrom 1990; Putnam 1993) have been criticized as failing to recognize that social capital is contained *within* individual relationships (for a discussion see: Adler and Kwon 2002; Lin 1999; Portes 1998). Particular to the research proposed in this paper, a dual perspective recognising both external and internal perspectives is adopted. This decision is supported by a number of researchers who argue that it is important to recognise both perspectives if a comprehensive understanding of social capital and its implications for entrepreneurship is to be acquired (Adler and Kwon 2002; Maurer and Ebers 2006; Nahapiet and Ghoshal 1998; Woolcock 1998).

Borrowing from Adler and Kwon (2002), social capital can be defined as, '*the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from the information, influence and solidarity it makes available to the actor*' (p.23). This definition is selected for a number of reasons. Firstly, it makes an important distinction between the sources and

outcomes of social capital. Secondly, it acknowledges both morphological and relational network dimensions as relevant to the sources of social capital – a perspective which is strongly supported by social network and social capital theory (Coviello 2005; Davidsson and Honig 2003; Greve and Salaff 2003; Hoang and Antoncic 2003; Mitchell 1969; Shaw 1999). Thirdly, it identifies social capital as being contained *within* social relations rather than being possessed by an individual or a social unit. This recognition that social capital is not owned exclusively by any single party is a key feature within the literature (Bourdieu 1986). Finally, this definition identifies the types of outcomes that can be obtained from social capital, another important dimension recognised in the literature (Lin 1999; Nahapiet and Ghoshal 1998).

Regarding small firms, the focus of analysis also needs to be addressed. Specifically, whether social capital is regarded as belonging to the individual business owner or to the small firm must be decided. Social capital is by and large generated, maintained and drawn upon by individuals (Burt 2000). Founding entrepreneurs often use their individual social capital to gain needed resources at start-up, at which point the social capital possessed by their new ventures is virtually identical to that possessed by the firm's founder (Larson and Starr 1993; Hite and Hesterly 2001). Davidsson and Honig (2003) found that while the focus of their study was individual entrepreneurs, the social capital which entrepreneurs brought to their ventures subsequently promoted inter and intra-organisational relationships. Supporting this, Adler and Kwon (2002) argue that particular to small firms, it can be difficult to distinguish between individual and organisational social capital. Ibarra *et al.* (2005) suggest that researchers should consider the interplay between levels of analysis, for example

when individual and communal social capitals are juxtaposed and different interests vie for control. Particular to small business services, an assumption made is that owners' motivations and actions will merge with those of the firm, so making a study of the entrepreneur's social capital appropriate. Accepting this, the paper now considers the outcomes, benefits and risks of social capital.

### **The Outcomes, Benefits and Risks of Social Capital**

Social capital provides small firms with both opportunities and risks. Adler and Kwon's (2002) identification of information, influence and solidarity as the key outcomes of social capital is reflective of the key consequences proposed by a number of researchers (Bourdieu 1986; Nahapiet and Ghoshal 1998; Portes 1998). A principle direct benefit of social capital is information: *'for the focal actor, social capital facilitates access to broader sources of information and improves information's quality, relevance and timeliness'* (Adler and Kwon 2002: 29). Efficient information diffusion through weak ties or structural holes may help improve the efficiency of action (Burt 1992; Granovetter 1973) and access new knowledge and skills (Podolny and Page 1998; Uzzi 1997). The dilemma is that if an entrepreneur maintains lots of weak ties, they may not be seen as sufficiently integrated into the network and they may be disadvantaged by their involvement in large numbers of uniplex, more potentially transient relationships. Expectations and reputation generated through repeated transactions help to safeguard the small firm against the possibility that trust might be broken, or that valuable information might be jeopardised rather than gained (Fried *et al.* 2006). Therefore, whilst the cost of transactions may be reduced as levels of trust increase and the probability of opportunism lessens, this must be counter-

balanced by the ability of the individual to gather timely, non-redundant information from social relations (Nahapiet and Ghoshal 1998).

Other key benefits of social capital include influence, control and power (Adler & Kwon 2002). Some social ties, due to their strategic location and positions, for example those bridging structural holes, carry more valued resources and afford greater power. Linking with the notion of symbolic capital, social tie resources and their relationships to the individual may also be seen as certification of the individual's social credentials (Bourdieu 1984; Lin 1999; Shaw *et al.* 2006). Burt (1992) examined the power benefits accrued by entrepreneurs who, because they have a say in whose interests are served by the bridge, can negotiate favorable terms and therefore become more powerful actors. The danger here is that if the entrepreneurs' contacts know each other, power can be lost because the focal actor's direct contacts will be less dependent on their relationship with them. Interdependence and closure may also be important for power and influence but, as Fried *et al.* (2006) remark, newly founded firms need to find the right balance between strong and weak ties to protect themselves from inertia and risk.

A further benefit of social capital is the 'solidarity' emerging from '*strong social norms and beliefs, associated with a high degree of closure of the social network*' (Adler and Kwon 2002: 29). Solidarity may lower monitoring costs, increase commitment, and allow more sensitive and richer information to be shared. It should be noted however that solidarity can also promote unethical behaviour and split the broader aggregate into factions with special interests (Brass *et al.* 1998). Innovation and entrepreneurship can both be hampered by tight knit communities (Portes 1998).

For example, in his study, Waldinger (1995) found that problems within ethnic communities are often confounded by the presence of solidarity. Portes (1998) notes that, in some ethnic communities, downward leveling norms caused by strong community closure undermines any chance the individual has to 'break-out' from poverty. In small firms, it has been noted that collaboration with new partners is sometimes missed because of the strong tendency among entrepreneurs to team with partners with similar characteristics including gender, education, status and beliefs (Maurer and Ebers 2006; McPherson *et al.* 2001), and also with those with whom they have previously experienced satisfactory relations (Uzzi 1997).

### **Social Capital and Time**

Bourdieu (1986) views the social world as accumulated history, and reasons that the accumulation of all forms of capital takes time, and may grow or decline at various stages. It can be established from the discussion above that the relative value of different types of ties changes over time. As Nahapiet and Ghoshal (1998) explain, *'time is important for the development of social capital, since all forms of social capital depend on stability and continuity within the social structure'* (p.257). The dilemma for the small firm is that in order to access new resources they need to build new relationships while maintaining previous network contacts. Social capital reflects investments in social relations and social organisation through time (Granovetter 1992). High levels of trust and norms of cooperation require certain network features, such as relationship stability and durability (Granovetter 1985; Mitchell 1969). As time goes by, the relationships which develop or disintegrate will have a profound effect on access to resources and to the performance of the small firm.



When examining the process of change in organisations, distinguishable phases are often identified, and are used to characterise the various stages an organisation is likely to pass through in an enterprise life cycle (McMahon 1998). Organisation theorists in particular have proposed numerous theories and models (Churchill and Lewis 1983; Greiner 1972; Hanks, Watson and Jansen 1991; Scott and Bruce 1987; Smith, Mitchell and Summer 1985). Whilst there are differences in the number of stages and the processes involved, these theories share a 'life cycle' approach, in which the common pattern of organisational growth is comprised of start-up, growth and maturity (Hanks and Chandler 1994). The life cycle approach to small firm growth has been extensively reviewed and critiqued (Hanks 1990; Hanks and Chandler 1992; Hanks *et al.* 1993; Kazanjian and Drazin 1989, 1990; Perry 1982; Quinn and Cameron 1983; Macpherson *et al.* 2004; Phelps *et al.* 2007). Criticisms have typically included: that stage models assume all small firms pass inexorably through each stage; that they fail to capture nascent entrepreneurial activity; and that they pay insufficient attention to the external environment (O'Farrell and Hitchens 1988). For small firms in particular, where growth may occur in reactive, rather than proactive surges (Fombrun and Wally 1989), the orderly sequential view of growth is seen as too deterministic (Miller and Friesen 1984). Given the heterogeneity of the sector, it is also unlikely that a theory and explanation that fits all firms will appear in the future (Gibb and Davies 1990).

Despite certain limitations, the basic premise of identifying stages in small firm development is supported and proposed for inclusion in the present conceptual framework for a number of reasons. Although views may differ over the number of stages and the patterns of development, it can be argued convincingly that small firms

have a 'life cycle' at least in terms of nascent, start-up and development stages (Davidsson and Honig 2003; Masurel and van Montfort 2006). The applicability of the life cycle to small professional service firms, in particular, has been explored and tested empirically. Findings did confirm there were different stages with different characteristics, and the study concludes that the general life cycle model is a logical way to view small firms in this sector (Masurel and van Montfort 2006). As Greiner (1998) points out, researchers need to accept that these phases exist within their own unique structures, with entirely different processes and leadership styles. If this is accepted and incorporated into research designs, the stages framework can be a useful and necessary tool for evaluating and comparing results across firms and over time (Churchill and Lewis 1983). Collecting information on the nature of the flows of information, influence and solidarity at different stages will help to uncover the impact of different configurations, and determine if it is the flows of capital, rather than the stage of the enterprise *per se*, which have greater explanatory power.

To order the timescale over which social capital is created and used, a three stage process, common to the small firm literature, is identified. Building on extant research, this includes nascent entrepreneurs and their motivation to initiate a business venture, the start-up phase, and thirdly the subsequent development and establishment of their business (Davidsson and Honig 2003; Greve and Salaff 2003; Hite and Hesterly 2001; Larson and Starr 1993; Wilken 1979). A dynamic perspective of entrepreneurial networks and their evolution is reiterated in the small firm literature (Aldrich *et al.* 1990; Hite 2005; Human and Provan 2000). A critical challenge for small firm owners is to understand and manage the evolution of their networks, in opportunity, discovery, and resource mobilisation (Hite 2005). A review of extant

research in these areas is now presented before identifying and explaining the conceptual framework developed to explore the impact of social capital on the performance of small professional service firms over time.

### ***Nascent/Motivation stage***

During this stage, nascent entrepreneurs are often highly motivated to discuss their ideas with others as this has been found to help develop their business concept (Greve and Salaff 2003). Granovetter's (1986) strength of weak ties concept has been influential in many fields, and suggests that the social capital used in the opportunity recognition process is often based on weak ties (Adler and Kwon 2002; Lin 2001; Hoang and Antoncic 2003). Access to resources such as financial capital or marketing information which may be of use at the nascent stage can often be accessed through bridging social capital, which is usually based on weak ties at the individual level (Davidsson and Honig 2003). That said, where the entrepreneur has experience of business ownership acquired from family members, the bonding social capital generated by this enhances their opportunity recognition (Davidsson and Honig 2003). Evidence therefore is mixed: the family socialisation process may increase the desire for autonomy, with strong ties providing access to more resources; conversely, many successful foundations do not rely on family relations but build new heterogeneous contacts during planning and establishment (Davidsson and Honig 2003; Fried *et al.* 2006).

### ***Start-up***

Research has shown that social factors are instrumental in gaining the resources to start a business and to exploit opportunities (Aldrich 1986). Consensus is limited as to

which network characteristics are most advantageous in a firm's early stages (Coviello 2005). Although some element of closure is necessary, Burt (1992, 1997) argues that business owners occupying key positions in sparsely connected networks will have the greatest chance of long-term success, due to the advantages associated with bridging structural holes. Most research seems to identify that weak ties are more important at the outset, providing access to valued resources such as finance, and that as relationships develop over time they become more multiplex, characterised by more and higher quality information exchanges (Hite and Hesterly 2001; Larson and Starr 1993). The key challenge for the developing small firm is to avoid the cognitive and relational lock-in that might accompany an increasingly dense network configuration (Adler and Kwon 2002; Maurer and Ebers 2006; Nahapiet and Ghoshal 1998). Gaining a better understanding of how social capital is developed by the nascent firm is an important stream of entrepreneurship research which will *'contribute to our understanding of internal sources of competitiveness and the role of social relationships in the creation of value'* (Arregle *et al.* 2007: 91)

### ***The Development/Establishment Phase***

As demonstrated above, agreement is limited as to the types of network structure and configurations that are most helpful during the early stages of business formation but there are even greater gaps in our knowledge of how the relative benefit of relational factors change over the history of the firm. There is limited evidence showing a link between a firm's performance and the coherence between a firm's social capital and its evolving resource needs (Hite and Hesterly 2001). Unfortunately most models which attempt to conceptualise the process of networking concentrate on the emergence and early growth stages of enterprise (Davidsson and Honig 2003; Hite

and Hesterly 2001; Johannisson 1996; Larson and Starr 2003). This has left a gap in understanding of where and how social capital is developed, and how the process of social capital development influences organisational outcomes (Arregle *et al.* 2007). Where this has been explored, findings are contradictory with some emphasising the benefits of bridging social capital (Davidsson and Honig 2003) and traditional market exchange (Hite and Hesterly 2001; Larson and Starr 1993), and others the value of strong ties (Bruderl and Preisendorfer 1998). In summary, the findings for the business development stage are limited and at present, raise more questions than answers.

### **Conceptual Framework**

Informed by extant entrepreneurship research (Adler and Kwon, 2002; Anderson and Jack 2002; Anderson *et al.* 2007; Casson and Della Giusta 2007; Davidsson and Honig 2003; Nahapiet and Ghoshal 1998) and writings on capital theory (Bourdieu 1985; Portes 1998; Becker 1964), the conceptual framework proposed is presented in Figure 1 below. Bourdieu (1983) argues that to understand the structure and functioning of the social world capital in all its forms must be recognised. Recognising this, Figure 1 shows an individual's capital as comprising of economic, cultural (or 'human'), symbolic and social capital, and also demonstrates that the various forms overlap and influence one another (Bourdieu 1985). An important argument presented by this paper is that when applied to certain contexts, in this case the professional services, this framework may be used to unravel aspects of social capital and the dynamic nature of overlapping capitals, due to relative similarity or inconsequential impact of cultural and financial capital.

**Insert Figure 1 Here**

### **Operationalising the framework**

The issue of how this framework might be operationalised for a study of performance in small professional service firms is important. Figure 1 visually presents the overlapping nature of the different forms of capital which is fundamental to understanding the dynamic, transformative nature of capital (Bourdieu 1983). As discussed, the knowledge intensive, service-based delivery of the professions suggests that the economic capital possessed by owners may have less impact on firm performance in the professional services sector where entry costs are low. Economic capital is operationalised through financial indicators, and is included for comparative purposes and to gain a full perspective on entrepreneurial capital. Similarly human or cultural capital, usually operationalised in terms of education and previous experience, is included but expected to be broadly similar across accredited professionals, such as practicing. Symbolic capital is problematic to operationalise, as ideally outsiders would need to be consulted to discover their perceptions of the entrepreneur. Studies of this form of capital could be operationalised by probing issues such as respondents' perceived reputation amongst their peers and clients, and their self-image (Bourdieu 1986). Deciding how best to operationalise symbolic capital might vary according to the research context and objectives: a study which focused on responsible entrepreneurship operationalised the concept by identifying uneconomic, inefficient or other symbolic acts carried out by the business owner (Fuller and Tian 2006); a network-based study, on the other hand, questioned how well known the entrepreneur would be at networking events (Shaw 2006).

The overlapping nature of these capitals warrants their inclusion in the conceptual framework but a key reason for basing the framework on the professional services is to concentrate on comparing differences in social capital in relation to ongoing performance. Much of the literature and extensive reviews which have now been made of the social capital concept (Adler and Kwon 2002; Nahapiet and Ghoshal 1998; Portes 1998) reiterate the need to separate the sources of social capital from the effects. Therefore Figure one identifies the outcomes of social capital as distinct from the sources, acknowledging that the presence of certain resources within a network is not necessarily directly related to the individual's ability to draw these resources from the network.

Social network theory can be drawn upon to help operationalise the social network concept. Mitchell (1969, 1973) suggests that network structures can be analysed in terms of their range, density, reach and anchorage. The value of analysing social capital along these dimensions is that it can then be assessed by referring to the notions of structural holes (Burt 1992, 1997), embeddedness (Granovetter 1985), and homophily (McPherson *et al.* 2001). Both bridging and bonding social capital need to be considered for two main reasons (Lee & Jones, 2008): the first is that individuals and groups may bond along some social dimensions and bridge across others (Putnam 2000); secondly, the relationship between time and negative externalities that can accompany the closure of bonding capital (Werner and Spence 2004) is not fully understood. Bridging social capital can have its own negative outcomes, as it is often seen as more instrumental than bonding social capital.

Also fundamental to understanding sources of social capital are the role of trust, norms, motivations and relational factors (Adler and Kwon 2002; Portes 1998). These features are uncovered by analysing the interactional dimensions of relationships, namely their content, directedness, durability, intensity and frequency of interactions (Mitchell 1969, 1973). The need to investigate such relational dimensions has been repeatedly outlined in the literature (Hoang & Antoncic 2003; O'Donnell *et al.* 2001; Renzulli *et al.* 2000) but empirical findings are still relatively limited compared to other aspects of social networks (Shaw *et al.* 2006; Shaw 2006). Also relevant to examination of the interactional aspects of social capital are both multiplexity, and the relative strength of ties (Granovetter 1973). Weak or loose relationships are useful in obtaining information that would otherwise be costly or difficult to locate and often provide a bridge between densely connected social cliques. Subsequent research has found mixed support for the weak ties thesis (Shaw 2006; Shaw *et al.* 2006). Also relevant to the relational configuration of social capital is the notion of reciprocity. Specifically, the norms and obligations that motivate individuals to donate as well as take value from social capital requires attention (Adler and Kwon 2002; Nahapiet and Ghoshal 1998; Portes 1998).

In addition to the structural and relational components of social capital some indication should also be made as to what competencies and resources are available at the nodes of the network (Adler and Kwon 2002; Lin 1999). For example, a practitioner and owner of a law firm may occupy a strong position in a network, bridging many structural holes, and forming many strong and multiplex links with a wide range of disparate individuals. However, unless the ties give this individual



access to resources, in the form of information and influence, it is not likely to improve the performance of the business.

Information, influence and solidarity - resulting for instance from closure in a network, or the relative strength of weak ties - are the foremost outcomes that can be drawn from an individual's social capital (Adler and Kwon 2002). Little is known about how the quality and relevance of these outcomes changes over the course of the business and affect performance. By examining the sources and outcomes of social capital over the history of the firm, a clearer picture can emerge of the overall impact that social capital has on small firm development. The potential benefits and risks of social capital also need to be addressed in order to evaluate how the performance of the firm was affected during this process (Adler and Kwon 2002).

As social capital is acquired and used over time, network data needs to be captured at different phases in the entrepreneurship process. Conceptualising a framework for small firm growth has been problematic due to the diverse nature of the sector and, previously discussed, although there are problems with the straight jacket of stage models of small firm development, it serves the purpose of understanding the impact of time on capital development to adopt this approach. In an empirical study, the practical issue of collecting data at different stages of the firms will mean that data will probably have to be gathered retrospectively. The use of the critical incident technique (Flanagan 1954) is suggested as an appropriate interview procedure to overcome some of the problems associated with retrospective recall bias, as it encourages participants to reflect on significant and therefore memorable periods in the business, the way they were managed and the outcomes (Chell 2000, 2004). The

technique has been used extensively in services marketing research (Keaveney 1995; Kelley *et al.* 1993; O'Guinn and Faber 1989) and applied in studies of entrepreneurship (Chell 2004; Chell *et al.* 1991; Cope and Watts 2000; Curran and Blackburn 1994; Pittaway 2000).

As well as gathering social capital data, performance-related data based on turnover and employee numbers, common indicators in the literature (Robinson and Sexton 1994; Srinivasan, Woo, and Cooper 1994; Davidsson 1991) can be gathered at each phase to allow the interplay between different forms of capital and the influence of social capital on performance to be addressed.

## **Conclusions**

Research considering entrepreneurial capital and its impact on business performance on small business is at an early stage and is complicated by the overlapping and malleable nature of these capitals. This paper has presented a conceptual framework which offers some prospect of isolating and better understanding how the characteristics of entrepreneurial capital explain differences in performance and outcomes in small professional service firms. A focus on social and symbolic capital may provide this explanation, given the similarity or relative inconsequence of certain capitals to small professional business owners. Another opportunity presented by the proposed framework is to explore the interplay of different capitals and the resulting implications for the performance of small professional service firms in relation to three extant states of the enterprise: nascent, start-up and development. This should allow a clearer picture to emerge about the dynamics of the various capitals that support entrepreneurship, and contribute to knowledge with regards to how different

capital configurations and the resources which flow from them affect performance at different stages in the entrepreneurial process.

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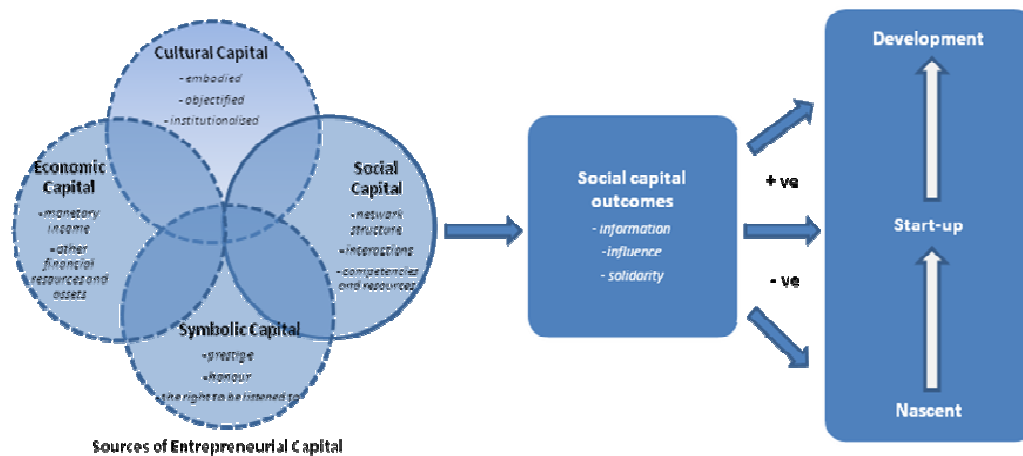
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**Figure 1: Conceptual Framework for the study of Social Capital**



<sup>i</sup> Bourdieu (1997) describes that *Cultural capital* can exist in three forms: in the embodied state, i.e. in the form of long-lasting dispositions of the mind and body; in the objectified state, in the form of cultural goods (pictures, books, dictionaries, instruments, machines, etc.), which are the trace or realization of theories or critiques of these theories, problematics, etc; and in the institutionalized state, a form of objectification which must be set apart because, as will be seen in the case of educational qualifications, it confers entirely original properties on the cultural capital which it is presumed to guarantee.

<sup>ii</sup> Becker (1964) defined human capital as *similar to physical means of production (factories, machines); one can invest in human capital via education, training and one's outputs depend partly on the rate of return on the human capital one owns. Thus, human capital is a means of production, into which additional investment yields additional output.*